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SUBJECT: AUSTRIAN AVIATION SECTOR INTENSIFYING RELATIONS
WITH CENTRAL AND EASTERN EUROPE

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Summary

1. In 2004, the AUA group (Austrian Airlines, LaudaAir and Austrian Arrows) carried a record number of passengers and operating profits rose by 25 percent. The outlook for 2005 is dim because of overcapacity in the European market and higher-than-projected fuel costs. Both AUA and the Vienna Airport (VIE) view markets in Central and Eastern Europe as a main focus. In January 2005, AUA obtained a 62% stake in Slovak Airlines, the Slovak national carrier. Both VIE and AUA will reportedly present bids for Bratislava Airport. VIE also aims to acquire a majority position in the Malta International Airport, as well as a stake in the Zagreb airport. VIE recorded strong profits in 2004 and prospects for continued growth in 2005 remain excellent. In June 2005, VIE successfully concluded an agreement to begin construction of a third runway, which is critical for VIE's expansion efforts. End Summary.

AUA Group - Passenger Record in 2004

2. The AUA group (Austrian Airlines, LaudaAir and Austrian Arrows) carried 9.41 million passengers in 2004, a 10.9% increase over 2003 and a new record. The passenger load factor was 72.8%. Operating revenues jumped by 5.4% to Euro 2.36 billion. Earnings before interest, tax, depreciation and rentals fell by Euro 101 million to Euro 320 million, but pre-tax earnings from operating activities rose by Euro 16 million to Euro 79 million.

3. In reaction to weakening business demand towards the end of 2004, AUA reduced fees for transfer passengers by more than 50% and lowered the fuel surcharge on tickets. However, AUA raised the surcharge in May 2005 for long distance flights from Euro 17 to Euro 27 per one-way flight, while it kept the surcharge for short and medium distances at Euro 7 per one-way flight.

AUA's 2005 Outlook - Dim

4. AUA expects a negative result for 2005. This is in light of first quarter results, which revealed declines in operating revenues, in earnings before interest, tax, depreciation and rentals and in pre-tax earnings from operating activities. Overcapacity in Europe and high jet fuel prices were the main causes for the drop in earnings. First quarter fuel was \$481 per ton, significantly above AUA's projection of \$450 per ton.

AUA Takeover of Slovak Airlines

5. In fall 2004, AUA guaranteed a Euro 5 million loan for the Slovak national carrier, Slovak Airlines (SA), with Slovenska Sporitelna Bank, a subsidiary of the Austrian Erste Bank. AUA subsequently received seats on SA's management and supervisory board, and in January 2005, AUA obtained a 62% share in SA for Euro 2.8 million. AUA's takeover of SA is part of its strategy to strengthen its Central and Eastern Europe (CEE) focus. AUA already operates a CEE hub out of Vienna, offering 461 flights weekly to 39 destinations in 23 CEE countries.

Vienna Airport's Plans for International Expansion

6. Both the Vienna International Airport (VIE) and AUA will reportedly bid on the Bratislava Airport, when the Slovak Government privatizes it. VIE is apparently also keen to transform its 40-percent share in Airport Malta into a majority share. VIE has also signalled its interest in obtaining shares in the Zagreb airport, when Croatian authorities put it up for privatization.

Vienna Airport - Strong 2004 Performance

17. Due to strong collaboration with low-cost carriers and an increase in travel to CEE and long-distance flights, VIE's passenger numbers totaled 14.79 million in 2004. This is a 15.7% increase over 2003. Cargo volume was up 21.0%. Total sales rose 14% to Euro 398 million in 2004 and pre-tax earnings from operating activities went up by 5.3% to Euro 103 million.

18. Low-cost carriers made an important contribution to VIE's positive results. Scheduled traffic accounted for 90.5% of total passengers. The most popular destinations were Frankfurt, London, Zurich and Paris. The most popular CEE destinations were Moscow, Warsaw, Sofia, Prague and Bucharest. Bangkok was the most popular long-distance destination, followed by Washington, New York and Tokyo. Antalya, Turkey remained the number one charter destination. For 2005, VIE predicts an increase of 8% in passenger numbers.

Vienna Airport Concludes Mediation for Third Runway

19. On June 22, VIE successfully concluded a five year mediation process for the construction of a third runway. VIE negotiated with state governments in Vienna and Lower Austria, neighboring communities and civil initiatives regarding noise reduction and other environmental issues. Construction of a parallel third runway, which will begin in 2009, is critical for VIE's business expansion. The current two runways do not allow independent operations and can handle a maximum of 72 flights per hour, while analysts predict 80 flights during peak hours by 2015.

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